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**CANADA AND PERU:  
USTR NOTES PROGRESS ON TELECOMMUNICATIONS ISSUES,  
BUT REMAINS CONCERNED ABOUT PACE OF IMPLEMENTATION**

United States Trade Representative Charlene Barshefsky today announced the results of ongoing reviews under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988, which requires USTR to review the operation and effectiveness of U.S. telecommunications trade agreements. In April 2000, USTR established an October 2 deadline for reviews of Canada and Peru. While limited progress has been observed in both countries, USTR will continue to monitor each situation closely to ensure full implementation of telecommunications trade commitments. The next 1377 review will be released in March 2001.

**Canada: The USTR will continue to monitor Canadian actions to reform the contribution program, which provides subsidies for universal service.**

“We are disappointed that the Canadian Government has not responded positively to calls for reform of its system for funding universal local telecommunications service - failure to address this issue will have an adverse long-term impact on the development of a competitive telecommunications market in Canada,” said Ambassador Barshefsky. “While we are encouraged that the CRTC recognizes this problem and is in the process of developing regulatory solutions to address the anti-competitive aspects of the current regime, we expect timely reform of this system and will continue to closely monitor this situation in advance of our next review in March 2001.”

Last summer, Canada denied a petition by competitive carriers to intervene to reform Canada’s funding mechanism for ensuring universal service (known as the “contribution system”). This system, which collects funds on a per-minute basis from long-distance traffic, potentially overcompensates the main beneficiaries, incumbent local suppliers, who also compete in the long-distance sector. Canada’s

regulator, CRTC, recognizes this problem and has initiated a rulemaking process to devise a more competitively-neutral collection system. USTR will closely monitor the Canadian rulemaking process.

**Peru: The USTR will continue to review Peru's implementation of its WTO commitments, particularly with respect to ensuring further progress on cost-oriented and non-discriminatory interconnection.**

“Peru recently made positive strides by cutting local interconnection rates and setting a schedule for further reductions,” said Ambassador Barshefsky. “While this action should encourage competitors to enter the market for local services, we remain seriously concerned that these rate reductions do not apply to more commercially relevant market segments. The current rate of 2.9 cents a minute for these segments contrasts sharply with interconnection rates in competitive markets in the Americas, where rates at or below one cent a minute are common.”

In August, Peru’s regulator (OSIPTEL) approved local interconnection rate of 1.68 cents per minute, scheduled to drop to .96 cents by 2002. While this action marks a significant step toward expanding telephone access and bringing advanced services to users, OSIPTEL failed to apply these rates to commercially more relevant market segments – long-distance and wireless interconnection. The regulator appears to recognize that there is no obvious reason why these rates should differ significantly, and all rates are expected to converge following the results of an ongoing cost study conducted by the World Bank. At the same time, wireless operators have set a rate for calls terminating on their networks at over 20 cents a minute. This action raises serious questions about whether rates in this key market segment are at competitive levels. USTR will continue to monitor this situation closely with a view to ensuring that the results of the ongoing cost study, anticipated by the end of 2000, are implemented in a timely manner.